Long-Term Care Insurance

What is long-term care?

Long-term care includes medical and non-medical care for people with chronic illness or disability on a daily basis over an extended period of time. Non-medical care includes assistance with "activities of daily living" or "ADLs," such as bathing, dressing, eating, remaining continent, using the bathroom, and walking.

What is long-term care insurance?

Long-term care insurance is one way to pay for potential future long-term care expenses. Coverage is available through several sources, and pays for a variety of long-term care services.

What are some sources of long-term care insurance?

Individual policies are available through insurance agents and brokers. Before purchasing a policy through an agent or broker, it is a good idea to ask about their training in long-term care insurance. The Washington Office of the Insurance Commissioner maintains a list of approved insurance companies.

Employers may offer group policies or make individual policies available at group rates, and benefits may also be available to family members. Generally, if you leave the employer or they stop providing the insurance policy, you can retain your policy or get a similar one if you pay the premiums.

Professional or service organizations may offer group policies to members. Ask about continued coverage if you leave the organization or it no longer provides the policy.

What services does long-term care insurance pay for?

Covered services vary by policy, but commonly include adult day health care services, assisted living facilities, care coordination, home care, home modification, hospice care, and nursing homes. Ask the insurance agent which services the policy includes.

Policies typically exclude treatment for alcohol or drug abuse, mental disorders, and self-inflicted injuries. Ask the insurance agent to review coverage exclusions with you, and make sure common illnesses such as Alzheimer's disease, dementia, diabetes, heart disease, and certain types of cancer are not listed.

Insurers may turn down an applicant based upon a pre-existing condition, or not pay for care related to the condition for a period of time. If you do not disclose a pre-existing condition, the insurer may not pay for related care at all.

Certain benefit triggers must occur before you will be eligible to receive benefits. Most policies require either severe cognitive impairment or an inability to perform two or three activities of daily living. Bathing is often the first task a person is unable to do alone, so it is a good idea to make sure it is included as a benefit trigger. Ask whether it is sufficient to require someone to supervise you performing an activity, rather than needing someone to do it for you. You should also check whether the policy allows your doctor, rather than a doctor chosen by the insurer, to decide if you qualify to receive benefits.

Once you are eligible for benefits, most policies include a waiting period of between 0 and 100 days before the insurer begins to pay for long-term care. You should choose a policy with only one waiting period for the duration of the policy, rather than one with a new waiting period after each new illness or need for long-term care. Ask how the insurer calculates the waiting period—some policies count each calendar day toward the waiting period, while others count only the days during which you are receiving care.

A policy may pay benefits at different rates depending on the service, or may pay a single rate for any covered service. Most policies limit the benefits available to a specific number of years or a total dollar amount. You should select a benefit amount and duration that fits your budget and anticipated needs. Compare the amount of a policy's daily benefits with the average cost in your area, as you will have to pay any difference.

In 2012, the average daily cost of long-term care services in Washington State ranged from $67.55 for adult day health care to $263.00 for a private room in a nursing home, and the projected daily cost for services in 2037 ranges from $130.37 to $807.51.[1] Ask whether a policy offers simple or compound inflation protection to help prevent the value of benefits from eroding over time. Benefits with simple inflation protection increase by a fixed percentage of the original benefit amount, and typically will not keep up with the increasing price of services over time. Benefits with 5% compound inflation protection are estimated to cover an average of 70% of nursing home costs and more than 90% of home care or assisted living costs.[2]

How much does long-term care insurance cost?

Premium costs vary based on several factors, including age and health at the time of purchase, the number and severity of benefit triggers, the length of the waiting period before the insurer pays benefits, the total amount and length of coverage, and the level of inflation protection. In 2010, the average annual premium cost of a policy providing a $150 daily benefit, 4–5 years of coverage with a 90-day waiting period, and 5% compound inflation protection was between $1,831 per year for purchasers under 55 years old and $4,123 per year for purchasers over 75 years old.[3]

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[1] http://longtermcare.gov/cost-of-care-results/?state=US-WA#

[2] http://www.aarp.org/content/dam/aarp/research/public_policy_institute/ltc/2012/ltc-insurance-2012-update-AARP-ppi-ltc.pdf

[3] http://www.aarp.org/content/dam/aarp/research/public_policy_institute/ltc/2012/ltc-insurance-2012-update-AARP-ppi-ltc.pdf

Policies with a future purchase option begin with a lower premium and coverage amount, and allow you to increase the coverage periodically at a higher premium. Be aware that the premium for the additional coverage is based on the purchaser's age at the time coverage is increased, rather than at the time of the original purchase. Some policies will only let you to opt out of the periodic increase a limited number of times before losing the option to make future increases.

An insurer cannot single out a single purchaser for a premium increase, but can increase rates on a class of similar policies in a state. Most premiums increase over the life of the policy.

An insurer cannot cancel a policy because of age or health.

If you let the policy lapse or are unable to continue to make premium payments, you will lose any benefits you have already paid for unless your policy includes a non-forfeiture option, which allows you to receive reduced benefits based on the amount you have already paid.

Under some policies, premium payments cease immediately once you begin receiving benefits. Other policies require you to continue paying premiums for a certain period of time.

What are some other ways to pay for long-term care?

Employer-based health insurance won't pay for daily, extended care.

You may be able to add a long-term care benefit rider to your life insurance policy.

Medicaid pays for nursing home care and generally a limited amount of at-home care for older people with low incomes and limited assets. It requires that you first exhaust almost all resources and meet eligibility requirements.

Washington State offers a Long-Term Care Partnership Program designed to allow you to keep a specified amount of assets and still qualify for Medicaid.

Medicare doesn't generally pay for long-term care. It pays only for skilled nursing facility or home health care that is medically necessary, and for hospice care under specific conditions. It doesn't pay for assistance with ADLs.

Some people pay for long-term care services out-of-pocket using personal savings or other personal resources.